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SUBJECT: Prosecutors Investigate Refugee Housing Scam

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SUMMARY and COMMENT

11. (SBU) In mid-February, the Croatian Office for Combating Corruption and Organized Crime (USKOK) began investigating possible illegal sales of refugee Serb houses to the Croatian State Agency for Refugee Property (APN). Intermediaries in Serbia and Montenegro (SAM), supposedly representing Serb owners of property in Croatia, allegedly used forged documents to sell houses to APN without the owners' knowledge. Officials from APN and the GoC's Office for Displaced Persons and Refugees (ODPR), private agencies and one Croatian bank may have been involved in the fraud, which could affect thousands of families. While it is encouraging that these cases are finally being investigated, and a sign that the GoC is willing to respect the rule of law even where the Serbian minority is concerned, the problem may prove both embarrassing and expensive for the GoC: eventual compensation for defrauded owners could run into millions of dollars. End Summary and Comment.

HOUSING SCAM RUMORED, THEN UNCOVERED

12. (SBU) In December 2004, ethnic Serb MPs publicized the cases of two Croatian Serbs living in SAM whose houses were sold based on falsified power of attorney. They asked APN to freeze further activity until the State Prosecutor and State Auditor could investigate contracts on 8,300 houses purchased since 1997, for which the state spent about 200 million Euros. An estimated 80 percent of these contracts were signed through power of attorney and a large percentage is potentially fraudulent. The MPs suspect that between four and eight million Euros ended up in the pockets of APN officials and mediating agencies. The NGO Association for Civil Alternatives and Ethnic Relations has taken the lead in helping potential victims, presenting 59 cases to USKOK in which power of attorney was falsified. USKOK is investigating those cases and APN's role, although they told Post they do not have capacity to check thousands of suspect contracts. USKOK has indications of hundreds of cases where the mediating agencies paid significantly less to owners than APN paid for the property.

MODALITIES OF FRAUD

13. (SBU) Perpetrators developed several schemes to make money from home sales. The most extreme form consisted of forging documents and selling homes without the owners' knowledge. More commonly, APN allegedly teamed up with intermediary agencies and drafted double contracts, which differed only in price. The higher-priced contract was filed and the lower-priced contract was given to the owner, with the APN official and the intermediary splitting the difference. Croatian Serb refugees with dual citizenship were best equipped to establish such intermediary agencies and travel between the two countries.

14. (U) The press reported that an agency owned by siblings from Kostajnica, Dusanka and Dusko Borojevic, operating in Sabac in SAM, made a fortune on such contracts. The prosecution's investigation showed that they concluded at least 450 contracts and the average difference ranged between 15,000 and 20,000 German marks per contract. A Serbian lawyer representing the owners filed a criminal report for Croatian prosecutors in 2001 against the siblings (who are dual citizens of Croatia and SAM) and three APN staff, but only the siblings were indicted.

15. (SBU) A third form of fraud was the purchase of nonexistent property, discovered during the internal APN audit in 2001. For example, former APN Director Davor Rajcic signed a purchase of a house in Glina, but the audit showed only land at that location, where no house ever existed. On other occasions, agencies forged powers of attorney for deceased individuals to sell houses.

APN'S ROLE

16. (SBU) APN has been notorious for its lack of transparency; rumors of impropriety have circulated for years. The media and NGOs are now highlighting serious procedural omissions in APN's contracting. Namely, contracts often lacked significant data about owners' identity, such as their unique identification number. Observers point out that cumbersome bureaucratic procedures (such as home assessments, two inspections, price

negotiation and notarization) could be completed in one or two days in a notoriously-protracted Croatian bureaucracy; closing on the purchase of a house at the speed of light heightened suspicion about APN's role in the frauds. Documents indicate that APN staff provided certain agents in SAM with information needed to forge sales documents. Based on this information, SAM officials arrested the head of the MiS NS Real Estate Agency in Novi Sad.

TAKING CORRECTIVE ACTION

17. (SBU) PM Sanader appointed APN's current President Vladimir Goatti in September 2004 after complaints began to mount about irregularities in APN's conduct. Goatti said he intends to get to the bottom of the scandal and has recently introduced a number of measures to prevent further illegal activity. One such measure is a freeze on all further activity. Another is to limit APN's acceptance of powers of attorney to three courts in SAM and the Croatian Consulate. However, Post has been told that on several occasions APN has refused to hand over contract copies to unwitting owners whose houses were sold, and refused several requests through power of attorney from the mentioned courts, quoting internal procedures. Goatti has also said that he will take steps to annul falsified contracts, presumably after court action.

18. (SBU) USKOK is proceeding with its investigation, which it expects will take several months. Dinko Cvitan, Deputy of USKOK estimated that "several hundred" individuals could have been swindled, although USKOK will not be able to examine thousands of documents. Defrauded owners, he explained, must file a criminal suit against the GOC. Even so, the barriers remain daunting: deceived owners can only annul forged contracts by filing a criminal suit against the GOC, which requires documents from APN files (not obtainable at the moment because of the ongoing investigation) or from inefficient local land registries. In addition, court fees are based on the property value and average 2,000 Euros - prohibitively expensive for many refugees. In addition, many owners may not be aware that their property was sold.

19. (SBU) The international community, with the GOC, is exploring options to ease the burden of owners who are victims of the scams. Post and others may suggest that APN provide copies of relevant documents to owners, that the GOC and its SAM counterparts verify powers of attorney, or, as Goatti indicated, that the GOC find an amicable settlement with owners to nullify false contracts. FRANK

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